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June 25, 2012

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

RE: *Duke Energy Corporation and Progress Energy, Inc.*,
Docket No EC11-60-004

Dear Secretary Bose:

On June 8, 2012, the Commission issued an order (the "Compliance Order") in the above referenced docket accepting the market power mitigation measures proposed by Duke Energy Corporation and Progress Energy, Inc. (the "Applicants") in connection with their merger. *Duke Energy Corporation*, 139 FERC ¶ 61,194 (2012). In the Compliance Order, the Commission imposed a number of filing requirements on the Applicants. I am writing this letter in connection with two of those requirements.

First, in paragraph 86 of the Compliance Order, the Commission required that "Applicants must notify the Commission within 15 days of the issuance of this order as to whether they accept the Commission's revisions to the Revised Mitigation Proposal." Consistent with that requirement, the Applicants hereby provide notice that they do accept the Commission's revisions to their mitigation proposal and that they will implement the proposal as revised by the Commission.

Second, in paragraph 83 of the Compliance Order, the Commission required that "Applicants must provide the Commission within 15 days of the issuance of this order with copies all of the binding agreements needed to construct the Transmission Expansion Projects, which were to be negotiated with American

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Electric Power and Dominion Virginia Power." Consistent with this requirement, the Applicants are providing, as Exhibits A and B, binding agreements with American Electric Power ("AEP") and Dominion Virginia Power ("Dominion") respectively. These binding agreements provide for the construction of those portions of the Transmission Expansion Projects that will be located on the systems of AEP and Dominion. All remaining construction of the Transmission Expansion Projects will be completed by the Applicants without the need for any agreements with any other transmission owner.

Thank you very much for your attention in this matter.

Respectfully submitted,

Catherine S. Stempien
Senior Vice President, Legal
Paul Kinny
Associate General Counsel
Duke Energy Corporation
550 South Tryon Street
Charlotte, NC 28202

/s/Mike Naeve
Mike Naeve
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Kendal Bowman
Associate General Counsel
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Associate General Counsel
Progress Energy, Inc.
410 South Wilmington Street
Raleigh, NC 27601

cc: All parties

EXHIBIT A

FACILITIES UPGRADE AGREEMENT

BY AND BETWEEN

AMERICAN ELECTRIC POWER SERVICE CORPORATION

AND

CAROLINA POWER AND LIGHT COMPANY, d/b/a

PROGRESS ENERGY CAROLINAS, INC.

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EXHIBIT A – SCOPE OF THE UPGRADE ACTIVITIES

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FACILITIES UPGRADE AGREEMENT

This Facilities Upgrade Agreement (this "Agreement") is effective as of the date of the closing of the merger of Duke Energy Corporation and Progress Energy, Inc. (the "Effective Date") and is by and among Carolina Power and Light Company, d/b/a Progress Energy Carolinas, Inc. ("PEC"), a corporation organized and existing under the laws of the State of North Carolina and a wholly owned subsidiary of Progress Energy, Inc., and American Electric Power Service Corporation ("AEP"), a corporation organized and existing under the laws of the state of New York. PEC and AEP are each referred to herein as a "Party," and collectively, as the "Parties."

RECITALS

WHEREAS, AEP owns and operates a bulk electric transmission system that includes the Danville-East Danville 138 kV transmission line ("Danville Line"); and

WHEREAS, AEP intends to take steps to increase the Summer Emergency rating of the Danville Line from 275 MVA to 384 MVA; and

WHEREAS, PEC owns and operates a bulk power electric transmission system that includes the Roxboro-East Danville 230 kV transmission lines ("Roxboro Lines"), and

WHEREAS, PEC intends to upgrade the interface between the AEP and PEC bulk electric transmission systems by adding a series reactor to one of the Roxboro Lines;

WHEREAS, the Parties desire to cooperate with each other to complete the foregoing work.

NOW THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the Parties agree as follows:

1. Definitions.

Capitalized terms used in this Agreement without other definition shall have the meanings specified in this **Article 1**, unless expressly stated otherwise.

"AEP Upgrade Activities" has the meaning set forth in **Exhibit A**.

"Designated Representative" has the meaning set forth in **Section 2.3.1**.

"Final Completion" has the meaning set forth in **Section 6.2.2**.

"Force Majeure" has the meaning set forth in **Article 7**.

"Hazardous Waste" means (i) any material which by reason of its composition or characteristics is hazardous waste as defined by the Legal Requirements, and (ii) any

other material which any governmental agency or unit having appropriate jurisdiction shall determine from time to time is harmful, toxic, or dangerous, or otherwise ineligible for disposal in an unregulated manner.

"Legal Requirements" means applicable federal, state and local laws, statutes, ordinances, rules, codes, regulations, permits, licenses, orders and legal requirements of any kind applicable to the Affected Line or the Upgrade Activities, including all permits and licenses issued by any governmental agency or subdivision thereof.

"PEC Upgrade Activities" has the meaning set forth in **Exhibit A**

"Project Schedule" has the meaning set forth in **Exhibit B**.

"Prudent Utility Practices" means those practices, methods and equipment, as changed from time to time, that are commonly used in prudent engineering, design, construction, operation and maintenance in the regulated utility industry to design, engineer, construct, operate and maintain electric power transmission facilities lawfully and with safety, reliability, efficiency, operability and maintainability.

"Summer Emergency Line Rating" means a rating that is consistent with the PJM 4 hour emergency rating based on a summer 95 degree temperature.

"Subcontractor(s)" means those entities who have an agreement with PEC or AEP for the performance of any part of the PEC or AEP Upgrade Activities and those entities (of any tier) having an agreement with such Subcontractors for performance of any part of the PEC or AEP Upgrade Activities, including suppliers and vendors.

"Warranties" has the meaning set forth in **Section 4**.

2. Scope of Upgrade Activities.

2.1 AEP's Responsibilities.

AEP shall undertake or provide or cause to be provided or undertaken, the following:

2.1.1 AEP shall prepare, to the extent required in the performance of the AEP Upgrade Activities, designs, working drawings, specifications, and shop drawings setting forth in detail the specifications and requirements for the procurement of the materials and equipment and for the performance of the AEP Upgrade Activities.

2.1.2 AEP shall be solely responsible for all construction means, methods, techniques, sequences, and procedures and for coordinating all portions of the AEP Upgrade Activities. AEP shall be solely

responsible for coordinating the Project Schedule with other affected utilities and PJM and to provide for any transmission outages necessary for the performance of the Upgrade Activities and shall use commercially reasonable efforts to obtain any approvals or scheduling required to complete the AEP Upgrade Activities in accordance with the Project Schedule.

- 2.1.3 AEP shall be solely responsible for obtaining and maintaining all approvals from PJM required to perform the AEP Upgrade Activities..
- 2.1.4 AEP shall obtain and maintain or cause to be obtained and maintained all governmental approvals, licenses, and permits, all real property rights, and any contractual rights required to perform the AEP Upgrade Activities.
- 2.1.5 AEP shall coordinate, cooperate and consult with PEC to the extent required for the performance of the PEC Upgrade Activities, including the coordination of any and all interconnection work that is required at any point of interconnection between the Parties' bulk electric transmission system, coordinating line clearances and outages that may be required to support the PEC Upgrade Activities, and supporting the PEC Upgrade Activities through any required PJM approval review and/or review process for the PEC Upgrade Activities.
- 2.1.6 Upon the written request of PEC, AEP shall provide any test results, measurements, and reports, as applicable, which are required or necessary in connection with the design, construction or acceptance of the AEP Upgrade Activities and as may be specified on Exhibit A.
- 2.1.7 AEP shall be responsible for handling, disposing of, and remediating Hazardous Waste that exists at the AEP Upgrade Activities sites on the Effective Date or that is generated by AEP or its Subcontractor(s) at any time during the performance of the AEP Upgrade Activities.

2.2 PEC Responsibilities.

- 2.2.1 Upon the commencement of the AEP Upgrade Activities, PEC shall designate a single representative (the "Designated Representative"), (a) who shall be authorized to act on behalf of PEC hereunder, (b) with whom AEP shall consult regarding significant issues related to the administration of this Agreement and AEP's performance hereunder, and (c) from whom AEP shall obtain all necessary comments or approvals required hereunder. AEP may rely on the notices, demands and objections or the failures to give notices, demands or objections of Designated Representative as the notices,

demands and objections or the failures to give notices, demands and objections of PEC, without inquiry to and notwithstanding any contrary or conflicting notice, demand or objection from Designated Representative. PEC may change the Designated Representative at any time by providing written notice to AEP.

2.2.2 PEC shall cooperate with AEP and take any reasonably requested action of AEP to facilitate AEP's performance or facilitation of the AEP Upgrade Activities.

2.2.3 PEC shall be fully responsible for all activities related to the PEC Upgrade Activities, including but not limited to all engineering and construction activities, hiring and supervision of Subcontractors, obtaining and maintaining all regulatory Approvals, ensuring that all Legal Requirements are satisfied, coordinating with affected transmission utilities, obtaining any required review and/or approval by PJM, obtaining any required review and/or approval by the North Carolina Transmission Collaborative, ensuring that all activities are done in accordance with Prudent Utility Practices, and handling, disposing of, and remediation of Hazardous Waste existing at the PEC Upgrade Activities sites on the Effective Date or otherwise generated by PEC or its Subcontractor at any time during the performance of the PEC Upgrade Activities. AEP's responsibilities regarding the PEC Upgrade Activities shall be limited to those set forth in Sections 2.1.6.

3. Meetings and Inspection Rights.

3.1 Upon request of either Party, the Parties shall meet (provided such meeting may be telephonic and any information to be exchanged may occur by e-mail), to provide status reports for the AEP and/or PEC Upgrade Activities, including progress updates and Project Schedule, and any other information reasonably requested. Such meetings shall be no more frequent than once a month, unless AEP has provided notice of an event under Section 3.2.

3.2 AEP shall timely notify PEC of any events or occurrences that could potentially delay performance of the AEP Upgrade Activities..

4. Warranties.

4.1 Warranties.

4.1.1 AEP warrants that the AEP Upgrade Activities shall be done in accordance with Prudent Utility Practices.

4.1.2 PEC warrants that the PEC Upgrade Activities shall be done in accordance with Prudent Utility Practices.

4.2 Limitation of Warranties on the Upgrade Activities.

EXCEPT AS SET OUT HEREIN, THERE ARE NO OTHER WARRANTIES, EXPRESS OR IMPLIED.

5. **Costs and Payment.**

5.1 Project Costs.

5.1.2 AEP shall be responsible for and shall bear all costs incurred to perform the AEP Upgrade Activities.

5.1.3 PEC shall be responsible for and shall bear all costs incurred to perform the PEC Upgrade Activities.

6. **Term and Schedule.**

6.1 Commencement.

In the event that it has not already done so, AEP shall begin the AEP Upgrade Activities on the Effective Date.

6.2 Final Completion.

6.2.1 Final Completion of the AEP Upgrade Activities means the upgrading of the Summer Emergency Rating of the Danville Line to 384 MVA.

6.2.2 AEP shall use commercially reasonable efforts to achieve Final Completion of the AEP Upgrade Activities by March 31, 2014.

7. **Force Majeure.**

In the event that either Party is unable to perform its obligations under this Agreement as a result of severe or extreme weather conditions such as hurricanes, floods and tornadoes, or as a result of derailments, acts of terrorism, governmental restrictions, or any like causes beyond the reasonable control of such Party ("Force Majeure") for a period of five (5) consecutive calendar days, then obligations of such Party shall be suspended for the duration of the Force Majeure event; provided, that such Party shall mitigate and make all reasonable efforts to meet its obligations for the duration of the Force Majeure conditions; and provided, that such Party shall promptly notify the other Party of the nature of the Force Majeure (in reasonable detail), when it began and when it is terminated. Any day in which one or more Force Majeure event(s) occur(s) or is continuing, shall be considered as one Force Majeure day.

8. Limitation of Liability.

Notwithstanding any other provision of this Agreement, in no event shall the Parties or any of their Affiliates, by reason of any of their respective acts, omissions or defaults relating to the Project Schedule, or the development, negotiation, design, construction, financing, ownership or performance of the AEP Upgrade Activities or PEC Upgrade Activities, otherwise pertaining or relating to any of their obligations under this Agreement be liable, whether in contract, tort, misrepresentation, warranty, negligence, strict liability or otherwise, for any special, indirect, incidental, consequential or punitive damages arising out of or in connection with this Agreement or the performance, default or breach thereunder.

9 Representations.

9.1 Each Party hereby represents as follows:

9.1.1 Due Formation; Authorization of Agreement. Each Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and has the full power and the legal right to own and operate its property and conduct the business in which it is currently engaged. Each Party has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action. This Agreement constitutes the legal, valid and binding obligations of each Party enforceable against such Party in accordance with its respective terms, except as enforceability may be limited by bankruptcy and other similar laws of general application and general equitable principles.

9.1.2 No Conflict with Restrictions; No Default. The execution, delivery or performance of this Agreement (i) will not violate, result in a breach of or constitute a default under any of the terms, conditions or provisions of any law applicable to such Party; and (ii) will not violate, result in a breach of, constitute a default under (whether with notice or lapse of time or both), accelerate or permit the acceleration of the performance required by, nor require any consent, authorization or approval (other than those which have already been obtained) under any material agreement or instrument to which such Party is a party or by which such Party is or may be bound or to which any of their properties or assets are subject.

10. General Provisions.

10.1 Independent Contractor.

Neither Party nor its Subcontractors, nor the employees of either, shall be deemed to be the servants, employees, agents, partners, joint venturers, or trustees of the other Party. Further and notwithstanding anything to the contrary in this Agreement, neither Party shall owe any fiduciary duties to the other Party in connection with the performance of its obligations under this Agreement or any related agreements. PEC agrees that it shall not be a party to or third party beneficiary under any construction, procurement or other agreements entered into by AEP or any permits or license obtained by AEP in furtherance of this Agreement, and shall not be entitled to independently exercise or enforce any of AEP's benefits, rights or remedies under such agreements, license or permits. PEC agrees not to bring any action, or join in any action brought by AEP, against any contractors, subcontractors, vendors or suppliers or their respective affiliates under or pursuant to any agreements, permits or license entered into or obtained by AEP. PEC agrees that AEP has not undertaken, and no term or provision hereof shall be deemed to obligate AEP, to file or pursue any legal action, lawsuit or proceeding against any person or entity relating to the AEP Upgrade Activities or this Agreement, and in the event AEP determines in its sole discretion to file or pursue any legal action, lawsuit or proceeding, the control, management and decision-making with regard to such claim, action or proceeding shall be solely within AEP's discretion.

10.2 Section Headings and Subheadings.

All Section headings and subheadings are inserted for convenience only and shall not affect the construction or interpretation of this Agreement.

10.3 Notices.

All formal notices hereunder other than routine correspondence in the ordinary course of business shall be sufficiently given for all purposes hereunder if in writing and delivered personally, sent by documented overnight delivery service or, to the extent receipt is confirmed, by United States mail, or, to the extent receipt is confirmed, by facsimile transmission to the appropriate address or number as set forth below.

If to AEP:

Evan Wilcox
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio, 43215
Fax: (614) 552-1780
E-mail: erwilcox@aep.com

with a copy to:

Andrea Kirsh
American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215
Fax: (614) 716-3440
E-mail: amkirsh@aep.com

If to PEC:

Samuel Waters
100 E. Davie Street
Raleigh, NC 27601
Fax: (919) 546-7558
E-mail: samuel.waters@pgnmail.com

with a copy to:

Kendal Bowman
410 S. Wilimington St.
Raleigh, NC 27601
Fax: (919) 546-6794
E-mail: kendal.bowman@pgnmail.com

or at such other address and to the attention of such other person as AEP may designate by written notice to PEC.

Notice given by overnight delivery or mail shall be effective upon actual receipt. Notice given by facsimile transmission shall be effective upon electronic confirmation of actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All formal or legal notices by facsimile shall be confirmed by the Party giving such notice promptly after transmission in writing by certified mail or overnight delivery to the recipient Party.

10.4 Governing Law.

This Agreement and the rights and obligations of the Parties hereunder and the transactions contemplated hereby shall be governed by, enforced and interpreted in accordance with the laws of the State of New York regard to principles of conflicts of laws.

10.5 Amendments.

This Agreement may not be modified or amended except by an instrument or instruments in writing signed by each of the Parties.

10.6 Counterparts.

This Agreement may be executed in one or more counterparts, all of which, taken together, shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party or Parties. The Parties agree that execution by facsimile signatures shall be as effective as if originally signed by a Party.

10.7 Entire Agreement.

This Agreement, as it may be amended in accordance with its terms, and all other Contract Documents, agreements, certificates and instruments delivered in connection herewith contain the entire agreement among the Parties with respect to the subject matter hereof and thereof and supersede any prior written or oral agreements, understandings, representations or warranties among the Parties with respect to such subject matter.

10.8 Assignment.

The rights and obligations of the Parties shall not be assigned or delegated without the written consent of the other Party or Parties affected, which consent shall not be unreasonably withheld.

10.9 Rights of Third Parties.

This Agreement is solely for the benefit of, and shall inure to the benefit of, the Parties and this Agreement shall not otherwise be deemed to confer upon or give to any third party any right, claim, cause of action or other interest herein.

10.10 Non-Waiver.

Failure of a Party at any time to require the other Party's or Parties' performance of any obligation under this Agreement shall not affect the right of a Party to require performance of that or any other obligation at any other time. No delay or forbearance of a Party in exercising any right or remedy under this Agreement shall affect the ability of that Party subsequently to exercise such right or to pursue any remedy, nor shall such delay or forbearance constitute a waiver of any other right or remedy. Any waiver by a Party of any right under this Agreement or of any failure to perform or breach hereof by the other Party or Parties shall be in writing and signed by the waiving Party or Parties. No such waiver shall be construed as a waiver of any continuing or succeeding breach of any provision of this Agreement, a waiver or modification of such provision itself, or a waiver or modification of any right, unless the instrument constituting the waiver so states. The remedies provided in this Agreement are cumulative and not exclusive of any remedies provided by applicable law.

10.11 Severability.

If any term or other provision of this Agreement shall be held invalid, illegal or incapable of being enforced by any applicable law or public policy by a court of competent jurisdiction, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to a Party. Upon such determination by a court of competent jurisdiction that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

10.12 Rules of Interpretation.

All references to "Section," "Sections" or "Article" refer to the corresponding Section, Sections or Article of this Agreement. If a term is defined as one part of speech (such as a noun), it shall have a corresponding meaning when used as another part of speech (such as a verb). Terms defined in the singular have the corresponding meanings in the plural, and vice versa. Unless the context of this Agreement clearly requires otherwise, words importing the masculine gender shall include the feminine and neutral genders and vice versa. The term "includes" or "including" shall mean "including without limitation." The words "hereof," "hereto," "hereby," "herein," "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not any particular Section or article in which such words appear.

10.13 Further Assurances.

The Parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as a Party may reasonably request for the purpose of carrying out the intent of this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each Party effective as of the Effective Date.

Progress Energy Carolinas, Inc.

By: 
Lloyd M. Yates
President and Chief executive Officer

Date: 6/22/2012

American Electric Power Service Corporation

By: _____
Robert W. Bradish
Vice President, Transmission Grid Development

Date: _____

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each Party effective as of the Effective Date.

Progress Energy Carolinas, Inc.

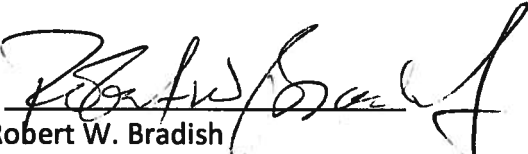
By: _____

Lloyd M. Yates

President and Chief executive Officer

Date: _____

American Electric Power Service Corporation

By:  _____

Robert W. Bradish

Vice President, Transmission Grid Development

Date: 6/21/12

EXHIBIT A
SCOPE OF THE UPGRADE ACTIVITIES

AEP Upgrade Activities:

- 1) Conduct a field survey of the existing Danville-East Danville 138 kV line in sufficient detail to serve as a basis for determining the design basis summer emergency rating. This may be a LiDar survey or alternate means of surveying the line so long as the methodology is consistent with AEP's line rating methodology specified in the appropriate NERC standards.
- 2) Calculate the summer emergency rating for the line based on as-found field conditions determined in the survey above.
- 3) If the calculated summer emergency line rating is less than 384 MVA, identify the actions necessary to restore the line to the desired 384 MVA rating.
- 4) Implement the actions/projects identified in Step 3 to correct the summer emergency line rating and return the reported line rating for planning and operations purposes to 384 MVA.
- 5) Provide Progress Energy Carolinas written confirmation that the summer emergency rating of 384 MVA for the Danville-East Danville 138 kV line is appropriate for planning and operational purposes by.

PEC Upgrade Activities:

- 1) PEC will work with AEP to coordinate any necessary clearances required for AEP to complete the necessary actions/projects resulting from the analysis in Step 3 above.
- 2) PEC will coordinate its proposed Roxboro reactor addition project plans with AEP to ensure reliable service on both sides of the AEP-PEC interface during the upgrades.
- 3) PEC will support any activities required by PJM to ensure that any required actions/projects are reviewed and included in the PJM planning process.

EXHIBIT B
PROJECT SCHEDULE

- 1) The field survey shall be completed by 12/31/2012.
- 2) The summer emergency rating shall be complete by 1/31/2013.
- 3) If additional actions/projects are necessary to restore the line to the desired 384 MVA rating then a list of such actions shall be complete by 6/31/2013.
- 4) Complete such actions/projects by 3/31/2014.

CONSTRUCTION AGREEMENT

This Agreement (Agreement) is dated as of June 23, 2012, and is by and between Carolina Power and Light Company, doing business as Progress Energy Carolinas, Inc. (Progress), and Virginia Electric and Power Company, doing business as Dominion Virginia Power (Dominion). Progress and Dominion are each referred to herein as a "Party," and collectively, as the "Parties."

RECITALS

WHEREAS, on January 8, 2011, Progress Energy, Inc. and Duke Energy Corporation (collectively, the Applicants) entered into an agreement pursuant to which the two companies will merge (Merger); and

WHEREAS, in a letter agreement dated March 23, 2012 between Progress and Dominion (March 23rd Agreement), Dominion, in recognition of the Merger, agreed to construct transmission facilities at two points of interconnection between Dominion's transmission system and Progress' transmission system consisting of upgrading the Person-Halifax 230 kV line to 712 MVA (summer rating) (Person-Halifax Upgrade) and replacing a wave trap at the Carson substation (Carson Wave Trap Replacement) (collectively, the Projects); and

WHEREAS, Section 2 of the March 23rd Agreement obligated Dominion to construct its portion of the Projects contingent upon the closing of the Merger; and

WHEREAS, Section 2.b of the March 23rd Agreement obligated the Parties to agree to a scope of Dominion's work for the Projects, and

WHEREAS, on March 26, 2012, in connection with their application at the Federal Energy Regulatory Commission (FERC) for approval of the Merger, the Applicants submitted a market power mitigation plan (Mitigation Plan) that consisted, *inter alia*, of seven proposed transmission projects, inclusive of the Projects; and

WHEREAS, on June 8, 2012, FERC issued an order (139 FERC ¶ 61,194) requiring, *inter alia*, that the Applicants provide FERC by June 25, 2012 with a copy of a binding agreement between Progress and Dominion evidencing an enforceable obligation for Dominion to construct its portion of the Projects; and

WHEREAS, the Parties have reached agreement as to the scope of Dominion's work for its portion of the Projects as well as target dates for the completion of that work and other terms associated with the construction of the Projects as set forth herein; and

WHEREAS, the Merger is scheduled to close on July 1, 2012; and

NOW THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the Parties agree as follows:

1. Scope of this Agreement. The Parties agree that Dominion has undertaken an enforceable obligation to construct its portion of the Projects, and Progress has undertaken an enforceable obligation to pay Dominion for Dominion's construction of its portion of the Projects in accordance with the terms of this Agreement.
2. Term and Termination. The Parties agree that this Agreement shall become effective as of the date first written above and shall terminate upon receipt of either: (a) a final payment from Progress to Dominion of any under collected amounts contemplated in Section 8 of this Agreement; or (b) a final refund from Dominion to Progress of any over collected amounts contemplated in Section 8 of this Agreement. The Parties further agree that no filing shall be made at FERC to reflect such termination.
3. Scope of Work. The Parties agree to the scope of work associated with Dominion's construction of its portion of the Projects as set forth in Attachment A to this Agreement (Scope of Work). The Scope of Work delineates non-binding target dates for Dominion to complete its portion of the Person-Halifax Upgrade and the Carson Wave Trap Upgrade (Target Dates). The Target Dates are intended only as a measurement of progress toward the expected, but not required, dates for each project to be completed.
4. Project Completion Deadline. Dominion shall use commercially reasonable efforts to complete its portion of the Projects no later than 30 months following the date Dominion is required to commence work pursuant to Section 5 (Project Completion Deadline). Dominion shall not be liable to Progress in any respect for failing to meet the Project Completion Deadline for Force Majeure reasons set out in Section 11 of this Agreement.
5. Commencement of Work. The Parties agree that Dominion shall commence work on its portion of the Projects after: (a) closing of the Merger; and (b) upon written notification by Progress that (i) the Merger has closed, and (ii) Dominion is authorized to commence work. The Parties contemplate that the work notification will be provided on or before July 15, 2012. If the work notification is provided after July 15, 2012, the Parties agree to enter into good faith negotiations to establish revised Target Dates which shall not be required to be filed with FERC.
6. Coordination with PJM. The Parties agree that the design and construction of Dominion's portion of the Projects will be coordinated with PJM Interconnection, LLC (PJM). The Parties agree that certain outages of transmission facilities owned by Dominion shall be necessary for Dominion to complete construction of its portion of the Projects and that any such outages will be coordinated by and through PJM. The Parties further agree that pursuant to the PJM's planning process (Planning Process), PJM may require modifications to the Projects. Dominion shall not be liable to Progress in any respect for failing to meet the Project Completion Deadline due to Dominion's compliance with PJM's outage requirements or modifications to the Projects made pursuant to the Planning Process. Additionally, Progress shall accept modifications to the Projects required pursuant to the Planning Process; provided, however, that Dominion and Progress shall work cooperatively with PJM to maintain the required benefits of the Projects to Progress and acceptability of the Projects to Dominion.

7. Independent Monitor. The Parties agree that as part of its approval of the Mitigation Plan, FERC required that the construction of the Projects be subject to monitoring by an independent monitor. Progress has the sole obligation to provide construction information to the independent monitor and Dominion has no obligation to provide any information to the independent monitor. Additionally, Progress may not provide information about the Projects to the independent monitor prior to authorization by Dominion. Dominion shall provide timely authorization for the provision of reasonably required information unless Dominion has deemed such information to be confidential, market-sensitive, or Critical Energy Infrastructure Information as that term is defined in FERC's regulations (collectively, Confidential Information). If the independent monitor requests Confidential Information, then Progress shall not provide such Confidential Information to the independent monitor until an appropriate agreement is executed between Dominion, Progress and the independent monitor for the provision of such Confidential Information from Dominion to Progress, and from Progress to the independent monitor. Dominion agrees to pursue putting in place such agreement in an expeditious manner and, once in place, agrees to provide timely authorization for the release of reasonably required Confidential Information from Progress to the independent monitor.
8. Payment for Dominion's Construction of its Portion of the Projects. The Parties agree that Progress shall be responsible to pay Dominion for 100% of the actual costs to manage, design, and construct Dominion's portion of the Projects (Actual Costs). Within thirty (30) days of Progress providing a work notification contemplated by Section 5, Dominion shall provide Progress an invoice of Dominion's incurred expenditures and expenditures scheduled to occur during the next three months. Thereafter, Dominion shall provide Progress with quarterly invoices of Dominion's scheduled expenditures for the following three months. Progress shall pay each invoice within thirty (30) days after receipt thereof. Within six (6) months of completing the work set forth in a quarterly invoice, Dominion shall true-up the quarterly invoices to the Actual Costs. If the true-up results in the Actual Costs being greater than the quarterly invoices, then Dominion shall submit an invoice to Progress for the difference between the Actual Costs and the quarterly invoice. Payment of such invoice shall be due to Dominion within thirty (30) days of receipt by Progress. If the true-up results in the quarterly invoice being greater than the Actual Costs, then Dominion shall refund to Progress the difference between the quarterly invoice and the Actual Costs. Such refund shall be made within thirty (30) days of the true-up. The Parties further agree that all costs paid by Progress to Dominion associated with the construction of Dominion's portion of the Projects shall be presumed to be not taxable as contributions in-aid of construction (CIAC). This presumption notwithstanding, in the event federal or state income taxes are imposed upon Dominion with respect to such payments paid by Progress as a CIAC by the Internal Revenue Service (IRS) and/or a state department of revenue (State), then Progress shall reimburse Dominion for the tax effect of such CIAC computed in accordance with FERC rules and including any interest and penalty charged to the Dominion by the IRS and/or State. Notwithstanding the above, payment of invoices and refunds shall not be made until FERC accepts a rate schedule implementing such charges.

9. Further Assurances. The Parties agree to: (a) furnish upon request to each other such further information; (b) execute and deliver to each other such other documents; and (c) do such other acts and things, all as a Party may reasonably request for the purpose of carrying out the intent of this Agreement that the Projects be constructed as contemplated in Attachment A.
10. Regulatory Approvals. The Parties agree that this Agreement is made subject to the jurisdiction of any governmental authority or authorities having jurisdiction over the Parties, the Progress transmission system, the Dominion transmission system, this Agreement, or the subject matter hereof. The Parties further agree that Dominion shall seek any necessary approvals from the appropriate governmental authority or authorities for Dominion to construct its portion of the Projects. If changes or conditions imposed by any governmental authority or authorities with competent jurisdiction in connection with Dominion's construction of its portion of the Projects as contemplated by this Agreement are unacceptable to a Party, the Parties agree to enter into good faith negotiations to resolve the objectionable change or condition. The objectionable change or condition shall be cause for termination of this Agreement upon thirty (30) days' prior written notice by the non-consenting Party to the other Party if the Parties are unable to resolve the objection.
11. Force Majeure. The Parties agree that no Party shall be in default in respect to any obligation hereunder because of Force Majeure. Force Majeure shall mean any cause beyond the control of the affected Party, including but not restricted to, acts of God, flood, drought, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, labor dispute, labor or material shortage, sabotage, acts of public enemy, explosions, orders, regulations or restrictions imposed by governmental, military, or lawfully established civilian authorities, which, in any of the foregoing cases, by exercise of due diligence such Party could not reasonably have been expected to avoid, and which, by the exercise of due diligence, it has been unable to overcome. Force Majeure does not include: (i) a failure of performance that is due to an affected Party's own negligence or intentional wrongdoing; (ii) any removable or remediable causes (other than settlement of a strike or labor dispute) which an affected Party fails to remove or remedy within a reasonable time; or (iii) economic hardship of an affected Party. A Party unable to fulfill any obligation by reason of Force Majeure shall use diligence to remove such disability with appropriate dispatch. Each Party shall: (a) provide prompt written notice of such Force Majeure event to the other Party which notice shall include an estimate of the expected duration of such event; and (b) attempt to exercise all reasonable efforts to continue to perform its obligations under this Agreement.
12. Limitation of Liability. To the fullest extent permitted by law and notwithstanding any other provision of this Agreement, in no event shall a Party, its affiliates, or any of their respective owners, officers, directors, employees, agents, successors or assigns be liable to the other Party, its affiliates or any of their respective owners, officers, directors, employees, agents, successors or assigns, whether in contract, warranty, tort, negligence, strict liability, or otherwise, for any special, indirect, incidental, exemplary, consequential

(including, without limitation, replacement power costs, lost profits or revenues, loss of good will or lost business opportunities) or punitive damages related to or resulting from performance or nonperformance of this Agreement or any activity associated with or arising out of this Agreement.

A Party's obligations to another Party under this Section 12 shall not be limited in any way by any provision of any workers' compensation, disability benefits, payroll or other employee benefits laws; provided, however, that nothing herein shall limit or restrict any defense a Party may be entitled to assert with respect to a Third Party Claim, including a defense based on the status of such Party as a statutory employer. EACH PARTY HEREBY SPECIFICALLY AND EXPRESSLY WAIVES ANY AND ALL DEFENSES IT MAY HAVE TO AN INDEMNIFICATION OBLIGATION TO THE OTHER PARTY PURSUANT TO THIS AGREEMENT BASED ON ANY IMMUNITY TO WHICH SUCH PARTY MAY BE ENTITLED UNDER ANY WORKERS' COMPENSATION, DISABILITY BENEFITS, PAYROLL OR EMPLOYEE BENEFITS LAWS.

13. Notices. Notices and communication made pursuant to this Agreement shall be deemed to be properly given if delivered in writing, postage paid, or, to the extent receipt is confirmed, by facsimile transmission or email delivery to the appropriate address, phone number or email address as follows:

If to Dominion: Director, Electric Transmission SOC and Planning
Virginia Electric and Power Company
P.O. Box 26666
Richmond, VA 23261
Facsimile: 804-771-4548
Email: kevin.curtis@dom.com

and

Manager, Electric Transmission Planning
Virginia Electric and Power Company
P.O. Box 26666
Richmond, VA 23261
Facsimile: 804-771-4548
Email: ronnie.bailey@dom.com

If to PEC: Director System Planning and Regulatory Performance
Progress Energy Carolinas, Inc.
411 Fayetteville Street
Raleigh, NC 27601
Facsimile: (919) 546-7558
Email: samuel.waters@pgnmail.com

and

Vice President – Transmission, Operations and Planning
Progress Energy Carolinas, Inc.
410 S. Wilmington Street
Raleigh, NC 27601
Facsimile: (919) 546-7558
Email: caren.anders@pgnmail.com

The above listed titles and addresses for a Party may be changed by written notice to all other Parties.

14. Governing Law. The validity and meaning of this Agreement shall be governed by and construed in accordance with federal law where applicable and, when not in conflict with or preempted by federal law, the applicable laws of the State of Virginia.

15. Amendments. This Agreement may not be modified or amended except by an instrument or instruments in writing executed by each of the Parties.

16. Independent Contractor. Neither Party nor its subcontractors, nor the employees of either, shall be deemed to be the employees, agents, partners, joint venture partners or trustees of the other Party.

17. Counterparts. The Parties agree that this Agreement may be executed in one or more counterparts, all of which, taken together, shall be considered one and the same agreement. The Parties agree that execution by facsimile signatures shall be as effective as if originally signed by a Party.

[Signature Pages Follow]

EXECUTION COPY

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each Party to become effective as of the date first written above.

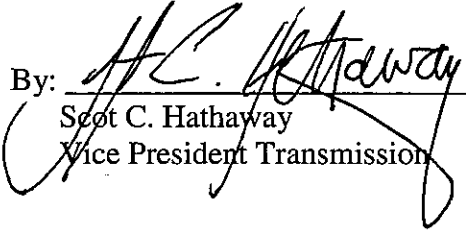
Carolina Power and Light Company

By: 
Lloyd M. Yates
President and Chief Executive Officer

EXECUTION COPY

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each Party to become effective as of the date first written above.

Virginia Electric and Power Company

By: 
Scott C. Hathaway
Vice President Transmission

MUR

ATTACHMENT A TO THE CONSTRUCTION AGREEMENT

Person-Halifax 230 kV Reconductor Project

1. Planning-Conceptual Design Phase: This phase shall consist of: 1) developing a conceptual design of 20.4 miles of Dominion-owned transmission line to achieve summer continuous rating of 712 MVA or higher; 2) completing, as required, the centerline survey, environmental survey, erosion control plan for construction; 3) obtaining erosion permitting for construction; 4) obtaining US Army Corp of Engineers (Corp), Virginia Marine Resources Counsel, and state highway permits; 5) determining conductor type and size; 6) determining preliminary work plan for design and construction; and 7) establishing estimated cost and schedule for design activities. This assumes that line siting and easement acquisition, are not required activities for this project. **The Parties agree that the target date for completion of the Planning-Conceptual Design Phase is November 30, 2012 unless wetland delineation with Corp confirmation is required, in which case the target date is February 1, 2013 .**
2. Execution-Final Design Phase: This phase shall consist of: 1) developing detailed final design and detailed project work plan; 2) ordering long lead time material during final design as soon as requirements are established and confirmed; and 3) identifying clearance requirements; and 4) establish target dates. **The Parties agree that the target date for completion of the Execution-Final Design Phase is May 1, 2013.**
3. Execution - Pre-Construction Phase: This phase shall consist of: 1) coordinating scheduling of any necessary clearances between the Parties and bidding construction or assigning in-house resources; 2) establishing line clearances/schedule; 3) providing notification to property owners and resolving property owners concerns; and 4) establishing estimated cost and schedule for construction activities. **The Parties agree that the target date for completion of the Execution-Pre-Construction Phase is July 1, 2013.**
4. Execution- Construction Phase: This phase shall consist of: 1) installing erosion control measures; 2) replacing conductor and line structures as required; 3) constructing the transmission line; 4) placing it in service; 5) performing clean-up and removal of old material; 6) issuing construction as-builds; and 6) notifying Progress of completed project and line rating to be used for planning and operations studies. **The Parties agree that the target date for completion of the Execution- Construction Phase is September 1, 2014.**
5. Project Closeout Phase: This phase shall consist of completing drawings updates and financially closing out the project. **The Parties agree that the target date for completion of the Project Closeout Phase is December 1, 2014.**

Wake-Carson 500 kV Wave Trap Project

1. **Planning- Conceptual Design Phase:** This phase shall consist of: 1) developing the conceptual design for replacement of 3000 A wave trap with a 4000 A wave trap at the Carson terminal; and 2) confirming line design of a summer continuous rating of 3954 A (3424 MVA). **The Parties agree that the target date for completion of the Planning- Conceptual Design Phase is October 13, 2012.**
2. **Execution- Final Design Phase:** This phase shall consist of: 1) developing detailed final design; 2) completing substation design, including an assessment of the impact on Protection and Controls coordination with PEC; 3) establishing a detailed project work plan; 4) identifying clearance requirements; 5) establishing target dates; and 6) ordering long lead time material during final design as soon as requirements are established and confirmed. **The Parties agree that the target date for completion of the Execution- Final Design Phase is April 30, 2013.**
3. **Execution-Pre-Construction Phase:** This phase shall consist of: 1) coordinating scheduling of any necessary clearances between the Parties; 2) bidding construction or assigning in-house resources; and 3) establishing estimated cost and schedule for construction activities. **The Parties agree that the target date for completion of the Execution-Pre-Construction Phase is May 30, 2013.**
4. **Execution -Construction Phase:** This phase shall consist of installing the wave trap and placing it in service. **The Parties agree that the target date for completion of the Execution-Construction Phase is November 30, 2013.**
5. **Execution- Notification Phase:** This phase shall consist of notifying Progress of project completion and the line rating to be used for planning and operations studies. **The Parties agree that the target date for completion of the Execution- Notification Phase is December 15, 2013.**
6. **Project Closeout Phase:** This phase shall consist of completing drawings update and financially close out project. **The Parties agree that the target date for completion of the Project Closeout Phase is December 31, 2013.**